

# How Europe can Stimulate Growth

EK's EU Policy Recommendations  
up to 2015

Confederation of Finnish Industries





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# FOREWORD

Finnish industry opened its EU Affairs Office in Brussels in the 1970s. Since then, it has become increasingly important that we have a presence at the EU level to influence and shape policies.

Today an overwhelming share of the legislation affecting Finnish companies is generated by the European Union. The role of the Confederation of Finnish Industries EK in Brussels is to provide policy-makers and legislators with information and opinions about how their decisions will affect Finnish companies. To help achieve this, we work closely with BusinessEurope, the umbrella organisation for European business.

Recent institutional developments within the EU are making it even more challenging for Finland to exert an influence. The power of the European Council has increased, and many issues are being dealt with by the Heads of State and Governments. The European Commission is particularly sensitive to the wishes of the larger Member States. This requires smaller Member States to be particularly focused in their activities if they are to continue to have their voices heard.

In addition, under the terms of the Lisbon Treaty, the role of the European Parliament has been enhanced. It now has stronger legislative and political powers. In this rapidly changing political climate, it has become more and more difficult to predict policy outcomes.

Among the current challenges for business is the very real risk of over-regulation, given the EU's desire to continuously tighten existing legislation. Any new regulation must not weaken the competitiveness of European companies in global markets.

This publication outlines the key issues for Finnish industry at the European level over the coming years. Current issues are also listed for each theme; the progress of these themes can be followed on EK's website [www.ek.fi/eu](http://www.ek.fi/eu)

Finnish Business and Finnish government share the same aims within the EU. To make the most of our EU membership and to ensure that our particular interests are taken into consideration, we must continue to work together to improve the way in which we can proactively influence the decision making process.

MIKKO PUKKINEN

Director General

Confederation of Finnish Industries EK

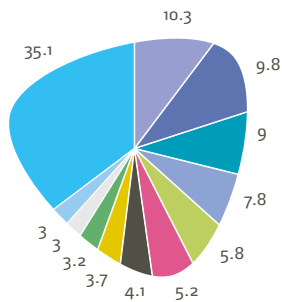
## EK IN BRUSSELS

- Provides Brussels-based decision-makers and legislators with information about the views of Finnish business, and topical debates in Finland.
- Provides Finnish business with information about current EU issues.
- Maintains contacts with other European business associations and participates in the activities of BusinessEurope, which has members from 34 countries.
- Participates in the social dialogue between European level labour market parties.
- Is represented on the European Economic and Social Committee.

# 1

## IMPORTANCE OF EXPORTS TO THE FINNISH ECONOMY

### Over half of Finnish exports go to EU countries



Exports of goods by country 2009, % • Total 44.9 EUR billion



Source: National Board of Customs

Taken as a whole, EU membership provides a positive framework for Finnish business and society, safeguarding both economic growth and the wellbeing of Finnish people.

Finland is strongly dependent on exports, which account for approximately 40 per cent of GDP. More than half of Finland's exports are destined for other EU countries, especially Germany, Sweden, the Netherlands and Great Britain. Other important export markets include Russia, the USA, China and Norway.

Many Finnish companies are global leaders in their own fields. Finland has a strong position, for example, in numerous engineering and metal product sectors, the forestry industry, electronics and various environmental technology applications.

Half of the personnel employed by Finland's leading export companies work outside Finland, primarily in EU countries, the USA and East Asia. The 25 largest export companies account for around half of all Finnish exports.

A low population density, a small domestic market, long distances and the resulting high transportation costs create unique challenges for Finnish business. High labour and production costs force Finnish companies to carry out their operations as efficiently as possible.

### PLENTY OF GROWTH POTENTIAL IN THE SERVICE SECTOR

Finland's economic structure differs considerably from that of other EU countries. Manufacturing remains of primary importance to the economy: goods exports based on industrial manufacturing account for approximately four-fifths of total exports.

The main industrial manufacturing sectors include the technology industries (such as the electronics and electro technical industry, the mechanical and metal product industries, metal refining and information technology), the forestry industry and the chemical industry.

Private services account for a smaller percentage of GDP than the EU average. Indeed, the private service sector in Finland has plenty of growth potential in the future.

The service industries have developed rapidly in Finland in recent years. Already a significant share of the turnover of many industrial companies is generated from various services. According to the Research Institute of the Finnish Economy (ETLA), a considerable share of the labour contribution of Finns is already connected directly to the private or public service sectors, or to the internal service tasks within industry.

## R&D INVESTMENTS AMONG THE HIGHEST IN THE EU

The competitiveness of Finnish business is based on a high level of expertise and the creation and utilisation of knowledge. Finland's particular strengths include the quality of education, equality of opportunity, the command of technologies, and an efficient and flexible business environment.

Finland invests heavily in R&D – approximately 4 per cent of its GDP, – one of the highest rates in the EU. According to the European Innovation Scorecard, Finland is ranked second after Sweden.

## EQUALITY IN THE LABOUR MARKET

There is a long history of co-operation between the social partners in the Finnish labour market. In Finland, labour and social legislation is prepared on a tripartite basis between the social partners and the government. This legislation provides the framework for the rules that regulate working life, although many practical issues are decided by means of sectoral collective agreements and local agreements within companies.

Women are widely represented in the Finnish labour market, and Finland has a higher percentage of women in senior positions than in other EU countries. The employment rate for women in Finland has traditionally been high, and the difference between the employment rates for men and women is among the smallest in the EU. Women in Finland are primarily engaged in full-time work.

### FINLAND

- Population 5.35 million (population density 18 people / km<sup>2</sup>)
- GDP 171.3 billion euros (approx. 32,000 euros per capita)
- Exports account for 40% of GDP
- 56% of exports go to EU countries
- Investments in R&D amount to 4% of GDP
- Employment rate 68.3%, women 67.9%, men 68.8%
- Unemployment rate 8.4%, unemployment among young people 21.5%

Figures for 2009

## EK IN FINLAND

- Approximately 16,000 member companies (96% SMEs).
- Covers all Finnish business, from the manufacturing industry to services.
- Represents companies on all issues to do with the business environment and social affairs. EK has 27 member federations.
- Member companies represent over 70% of GDP and 95% of exports.
- Around half of all Finnish wage earners work for EK's member companies.

# 2

## HOW A STRONG EU WILL BENEFIT FINNISH BUSINESS

The economic crisis and growing national debt, globalisation, ageing populations, climate change and numerous security threats are all major challenges that the European Union has to tackle. Enforcing strong economic governance has become a major factor underpinning the EU's credibility.

Finland's membership of the EU benefits Finnish companies. The Confederation of Finnish Industries EK supports a strong European Union that can speak with a united voice.

It is to the advantage of Finland and Finnish business that the EU promotes common rules and a governing structure based on a clear division of duties between EU institutions, in which the European Commission plays the central role. The EU should not move towards intergovernmental co-operation. The European Parliament needs to handle issues efficiently and responsibly. The European Council in turn must be able to make politically difficult decisions.

EK believes that EU policy should be based on the following basic principles:

- Economic integration should be deepened and political stability supported.
- The EU's four basic freedoms should be safeguarded: the free movement of capital, goods, services and people.
- There should be increased transparency in the EU institutions and decision making processes.
- The EU's role as a global player should be further promoted.
- The European Commission's strong role in introducing new initiatives and as the engine of integration should be ensured.
- Decision making should be effective and based on a clear division of duties between the EU institutions.

### GROWTH AND COMPETITION ARE ESSENTIAL

The wellbeing of Europeans and Finns is dependent on a well-functioning economy and economic growth. In order for companies to perform competitively, employ people, invest, grow and develop, they need a stable business environment. And one of the key factors to promote this is a predictable national and international economic environment.

The importance of manufacturing needs to be more widely recognised within the EU. The success of industry has a significant impact both directly and indirectly on employment and growth. Manufacturing output also creates the preconditions for a growing service sector; an increasing proportion of the revenues of many industrial companies today are generated by industrial services.

A major challenge for the EU's industrial policy is to ensure that all political activities across different areas contain a requirement to consider the effect of that activity or policy on overall industry competitiveness.

Business policies must be based on open markets and a level playing field. The EU should not practice a policy of "picking the winners" and nor should it permit state funded subsidies that distort competition. The EU should also work towards an internationally level playing field to help European companies compete globally.

Competitiveness should be made the guiding principle of all EU activities. EK believes that the competitiveness of the EU should be based on the following criteria:

- A business climate that promotes economic growth and productivity
- A stronger Economic and Monetary Union and more co-ordinated economic policies
- A stronger Single Market and creation of a Digital Single Market
- Greater innovation, expertise and entrepreneurship
- Sustainable climate, energy and environmental policies
- Stronger co-ordination and uniformity of trade policies, internal market policies, industrial policies and innovation policies
- Open global markets and stronger global competitiveness for European companies

#### EUROPE 2020 STRATEGY SHOWS THE WAY

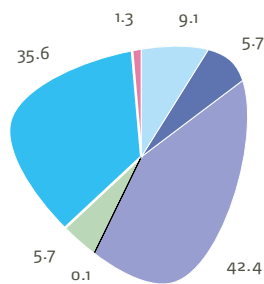
The aim of the Europe 2020 strategy is to promote reforms that would improve growth, wellbeing and employment among the Member States and in the EU as a whole. EK believes that the EU should focus on actions that stimulate growth and employment. A favourable business environment should be fostered and the global competitiveness of European companies should be reinforced.

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#### EUROPE 2020 STRATEGY AND FINLAND'S NATIONAL TARGETS

1. To raise the employment rate of those aged 20–64 to 78% (EU target: 75%)
2. To raise the share of R&D outlays to at least 4% of GDP (EU target: 3%)
3. To commit to the 20/20/20 targets previously agreed for combating climate change
4. To improve the level of education by reducing the number of dropouts to less than 8% and raising the share of young people with third level education to 42% (EU targets: 10% and 40%)
5. To reduce the number of persons threatened by poverty and social exclusion by 100,000 (EU target: 20 million in total)

**Only around 9% of EU funds are allocated to promote competitiveness**



Allocation of EU budgetary funds 2007–2013, %

- COMPETITIVENESS, GROWTH AND EMPLOYMENT
- EU AS A GLOBAL ACTOR
- PROTECTION OF NATURAL RESOURCES, AGRICULTURE
- REBATES
- ADMINISTRATION
- REGIONAL POLICY, COHESION
- CITIZENSHIP, FREEDOM, SECURITY AND JUSTICE

In order to achieve the targets outlined in the strategy, Member States must commit themselves to bold reforms, and the progress of these actions should be monitored in line with the European semester system.

EK urges the European Commission to focus on implementing and monitoring the flagship projects of the Europe 2020 strategy. All EU activities must support the realisation of the targets laid down in the strategy. There also needs to be proper oversight to ensure the efficacy of the legislation.

**EU BUDGET SHOULD SUPPORT THE PREREQUISITES FOR GROWTH**

The EU budget is equivalent to approximately 1% of the EU’s total GDP, or roughly 130 billion euros. The budget is a vital tool for developing the Union, even if it is relatively small compared to the resources of individual Member States.

Currently only around 9 % of the EU’s financial resources are allocated to strengthening competitiveness, which in turn helps promote growth and employment. Any significant changes in the budget focus would necessitate a review of agricultural policies, as well as regional and structural policies.

EK strongly believes that the EU’s financial framework should better reflect the targets in the Europe 2020 strategy, i.e. smart, sustainable and inclusive growth.

- When deciding the EU budget, the key areas of focus should be selected purely on the added value they create and the efficacy of the policies.
- The EU’s budget resources should be genuinely targeted at promoting growth and competitiveness. A larger share of cohesion policy funding should be used to improve the prerequisites for research, development and innovation.
- Rebates should be eliminated. The EU’s own resources should be improved to allow the above-mentioned goals to be achieved.

# WORKING FOR SMARTER REGULATION

3

The work programme of José Manuel Barroso's second Commission (which stretches to the year 2015) is ambitious. It includes numerous policy and legislative initiatives, for example in the fields of financial markets, the single market, and energy and industrial policies.

This flood of new proposals nevertheless conceals a real risk of over-regulation. Attention must be paid to the predictability of regulation (see notes). The EU institutions must renew their commitment to developing a better regulatory environment and a global level playing field for businesses.

Smart regulation in the EU is one of the Commission's most important proposals. It should also be adhered to in practice: what is needed is less but better regulation.

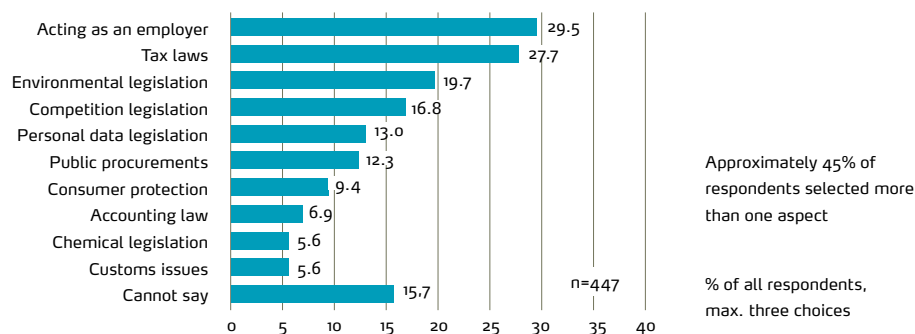
## THINK SMALL FIRST!

The Small Business Act proposed by the Commission in 2008 lists ten principles to help facilitate the activities of European small and medium sized enterprises (SMEs).

The aims of the package are to support the internationalisation and market entry of SMEs, to promote the participation of SMEs in public procurement, to improve funding opportunities, and to implement a "think small first" principle. Accordingly, no new legislation should be approved without first carefully assessing its impact on SMEs.

## Which legislative aspects create the most difficulties for your company?

EK regulatory environment questionnaire for member companies (2007)



## EK'S POLICY RECOMMENDATIONS

### Better regulation must be taken seriously

- The European Commission, Parliament and Council must renew their commitment to adhere to the principle of better and smarter regulation, and they must promote the efficient handling of proposals.
- Co-operation between the different Departments (DGs) within the Commission needs to be improved, and the transparency of the legislative process should be enhanced.
- Stakeholders should be more involved and have the opportunity to influence legislation earlier in the process.
- Before issuing any new regulatory proposal, the Commission should assess the efficacy and appropriateness of the proposal by means of a “fitness check”. The check should also take into consideration existing legislation and its impact on companies.
- The Commission should undertake thorough impact assessments to measure the potential effect of new legislation on companies, should adhere to the “think small first” principle and perform competitiveness tests for all major proposals. The effects of significant changes to existing legislation should also be assessed.
- An Economic impact assessment should always be included in every major EU proposal, both at regional and national levels, and the Commission should note these assessments in its conclusions.
- The Commission's Impact Assessment Board (which is responsible for making decisions about impact assessments) should have broader rights to prevent proposals from being issued without the relevant impact assessments.

### The administrative burden on SMEs must be reduced

- The target of the Small Business Act to reduce the administrative burden on companies by 25% by 2012 must be adhered to, and the EU should set new targets for 2015. The European Commission should closely monitor the implementation of the Small Business Act in Member States.
- Any new regulation of company law needs to be based on genuine regulatory needs and must facilitate business activities.
- Modernise the European accounting legislation and financial reporting to better meet the needs of the small and medium-sized enterprises. Special attention should be given to the relationship between taxation and accounting. The adoption of possible SME-IFRS (International Financial Reporting Standards) should be voluntary.
- The EU should assess the content of international accounting standards before adopting them on the EU level. The liability of auditors should not be restricted by EU legislation.

#### Current issues

- Smart regulation in the EU
- Review of the Small Business Act
- European Private Company Statute
- Company law reform
- Green Paper on auditing
- Accounting practices for leasing agreements (IAS 17)
- Country by Country reporting consultation by the European Commission

## THE BEST WAY TO PROMOTE CSR IS ON A VOLUNTARY BASIS

Corporate Social Responsibility (CSR) has been on the agenda of EK and its predecessors for many years. Responsibility is part of the normal business activities of companies.

A responsible company is attentive to the demands and expectations of its key stakeholders and shareholders. It will also take environmental, social and ethical issues into account, in addition to the usual economic considerations.

### CSR ACTIVITIES SHOULD REMAIN VOLUNTARY

Responsible business activities supplement legal obligations. CSR should be based on the voluntary actions of companies and support their business operations.

By using CSR, companies can often promote innovation, productivity and material efficiency and gain a competitive advantage.

Discussions are underway within the EU on whether CSR reporting should be regulated. EK believes that more prescriptive rules at EU level on disclosure of non-financial information are not only unnecessary, but would also hamper the innovation and dynamism in company practices in this field. As a result, companies would also lose their competitive advantage.

#### EK'S POLICY RECOMMENDATIONS

- **Companies must be allowed to make their own decisions about CSR activities. They should be allowed to develop best practices on their own terms, and CSR reporting should not be mandatory.**
- **The transparency of environmental, economic and social issues should be enhanced, but without increasing the administrative burden on companies.**

#### Current issues

- **Reporting of non-financial information**

# 4

## A MORE CREDIBLE STABILITY AND GROWTH PACT

The Stability and Growth Pact is the most important tool for the EU to coordinate the macroeconomic development of those Member States belonging to the Monetary Union. The pact defines limits for national debt and budget deficits, for example.

The stability of Finland's economic development is important for Finnish business. The biggest advantages of belonging to the Monetary Union have been low interest rates and a reduction in currency risks.

The Monetary Union has also opened markets and facilitated the business of SMEs in particular. Furthermore, the common currency has increased Finland's influence in European economic policy-making, which is also an advantage for Finnish companies.

### HEALTHY PUBLIC ECONOMIES ARE AN ADVANTAGE FOR COMPANIES

Stable economic growth, a predictable economic policy and sufficient coherence between euro zone countries creates a beneficial economic environment for companies. Healthy public economies are an advantage for business.

Excessive public deficits create pressure to increase taxes and reduce the possibility of implementing an active growth-oriented economic policy.

Improved co-ordination of economic policies and a new crisis management mechanism have been key issues on the EU's agenda in response to the economic and financial crisis and the debt crises of Member States. Improved co-ordination of macroeconomic policy has been a big step forward in the EU's economic integration.

The EU should have the ability to address any serious structural problems that are apparent within the Monetary Union. In addition to the growing debts of some Member States, these problems are being caused by major differences between many Member States in such areas as productivity and the balance of payments.

### STRENGTHENING THE EU'S COMPETITIVENESS BY MEANS OF TAXATION

It is often pointed out that EU countries decide their tax policies for themselves. For the most part this is true, but a significant exception to this is indirect taxation, which is based primarily on EU directives.

In addition, EU law restricts the scope of national decision-making in terms of taxation. For example, tax systems are not allowed to favour domestic actors at the expense of those from other EU countries.

## EK'S POLICY RECOMMENDATIONS

- EU countries should commit themselves to a better co-ordination of macro-economic policies. This can be achieved by improving the supervision of public finances, increasing the monitoring of macroeconomic indicators and competitiveness, and by intensifying the implementation of the Stability and Growth Pact.
- The Stability and Growth Pact must be developed into a credible tool for ensuring macroeconomic stability. This includes the possibility of imposing sufficiently strong sanctions.
- To prepare for possible crises, well functional institutions are required that can prevent and combat problems.
- The European Central Bank must remain fully independent. An independent central bank will best ensure price stability and the competitiveness of the Euro zone in the long term.
- The competitiveness of the EU must be enhanced in relation to other leading economic areas by means of taxation. Tax rates must be kept competitive, and no decision should be taken to unify tax rates at the EU level.
- International tax co-operation is important, especially for companies carrying out cross-border business activities. The EU should continue to remove tax barriers. The most important project in this area is the European Commission's goal to create a Common Consolidated Corporate Tax Base (CCCTB).
- The harmonisation of value-added taxation should continue to remove international trade barriers and reduce the administrative burden on companies.
- Combating the grey economy efficiently is important for both tax recipients and law-abiding companies. VAT fraud in particular causes substantial losses of tax revenue for Member States. However, intensified efforts to combat the grey economy must not increase administrative costs for companies. The exchange of information between Member States should be improved, and adequate funding should be provided for the appropriate regulatory authorities.

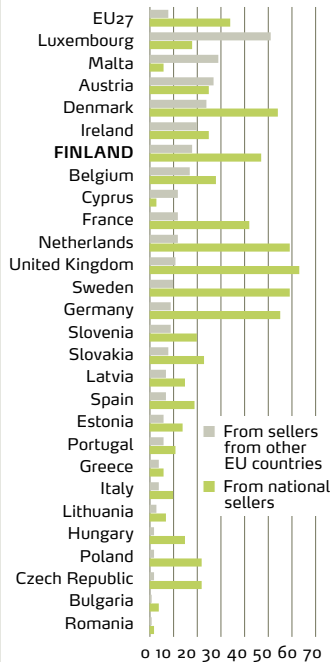
### Current issues

- A new EU economic governance – a comprehensive Commission package of proposals
- Creation of a Common Consolidated Corporate Tax Base (CCCTB)
- Changes to the Interest and Royalties Directive
- More effective taxation of the financial sector
- New VAT strategy
- VAT changes for insurance and financial services

# 5

## REVITALISING THE SINGLE MARKET

Online sales are growing, but consumers still purchase primarily from domestic websites



Domestic and cross-border Internet purchases 2009, consumers (%)

Source: Eurostat

According to estimates, the EU's Single Market created 2.75 million jobs between 1992 and 2006. Large domestic markets are indeed very important for the EU economy. They are also a key success factor for sustaining global competitiveness, as is also true for the US.

A fully functioning Single Market and a level playing field are vital for Finnish companies, as EU countries account for over 50% of Finnish exports and approximately 40% of direct foreign (industrial) investments.

### UNLEASHING OUR FULL POTENTIAL

Free movement of people, goods, capital and services is the cornerstone of the Single Market. Companies must be able to produce, sell and compete wherever it is most profitable for them to do so. This benefits both consumers and business.

The full potential and opportunities of the Single Market are not yet being realised. For example, completing the Digital Single Market would add several percentage points to the EU's GDP by 2020.

Single market policies and legislation should be primarily aimed at reinforcing the openness and efficiency of the markets, as well as creating a business-friendly environment to encourage the growth and competitiveness of companies.

EK emphasises that the Member States should focus their resources on implementing and applying single market legislation effectively. The European Commission in turn should oversee the process and ensure that this actually happens.

### PUBLIC TENDERS MUST TAKE INTO ACCOUNT THE NEEDS OF SMES

Public procurement is important for companies throughout Europe. Public tenders should take into account the needs of different sized companies. SMEs should have the opportunity to participate in public tenders even as the size of the procurement contracts grows and the markets become more centralised.

## EK'S POLICY RECOMMENDATIONS

### A true digital single market must be created within the EU

- Barriers to a digital single market must be systematically removed. Companies must be able to create, offer and sell products, services and contents in a user-friendly manner throughout the EU.
- The operational environment for e-commerce must be improved in terms of invoicing, payments and identification.
- Copyright legislation must be improved to address the digital business environment. Cross-border licensing must be made easier, and the so-called copyright levies system should be developed to find a competitive European solution. Promoting the availability of user friendly and legal content is the most efficient way to combat the online piracy.
- The EU's Radio Spectrum Policy Programme must enable the use of fast mobile broadband connections.

### Competition policy must guarantee fairness and equality for all companies

- The Commission must ensure that all companies are treated equally within the Single Market, and that the rules ensuring fair play are adhered to. Public sector agencies must not be given advantages over private companies when it comes to competitive bidding.
- Competition legislation must be clear and uniform throughout the EU.
- The transparency of competition law procedures within the European Commission must be increased. The rights of companies to defend themselves in competition law investigations must be safeguarded.
- The effective public enforcement of the competition rules will ensure effective competition. There is no requirement for a collective redress system, allowing antitrust damage actions at EU level.
- The European Commission must take action rapidly against any State Aid that distorts competition.

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#### Current issues

- Communication on the Single Market Act
- Proposal for a framework directive on the collective management of copyrights
- Proposal for a directive on the mutual recognition of orphan works
- Green Paper addressing the opportunities and challenges concerning the online distribution of audio-visual works and other creative content
- Review of Electronic Signatures Directive
- Review of the data protection legal framework
- Decision on EU's Radio Spectrum Policy Programme

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## EK'S POLICY RECOMMENDATIONS

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- EU Broadband Strategy
- Review of the EU legislation on standardisation
- Review of the EU public procurement legislation
- Green Paper on electronic procurement
- Legislative proposal concerning service concessions
- Proposal for the Consumer Rights Directive
- Public consultation on alternative dispute resolution mechanisms
- Revision of the Product Safety Directive

### Public procurement must be utilised to increase productivity

■ The European Commission must actively monitor the public procurement rules to ensure they are enforced correctly within the Member States. The provision of services should be awarded to the company or organisation that can provide them most cost-effectively and efficiently. Public agencies must support open competition for all relevant contracts and avoid restricting contracts to a limited number of their traditional local or national suppliers.

■ It must be ensured that public procurement contracts are based on fair and unprejudiced selection criteria. This principle must not be endangered even when different political interests are taken into consideration.

■ Participation in public tenders should be made as easy and simple as possible. SMEs should be given more opportunities to participate in public tenders. Partial offers and alternative offers should be permitted whenever possible.

■ Public-private partnerships should be promoted at the EU level. Any new regulations should not, however, increase the administrative burden on companies.

### EU's retail markets should be strengthened by means of an active consumer policy

■ Consumer protection legislation should be harmonised more broadly. This would balance competitive conditions within the Single Market and facilitate cross-border business, such as online sales.

■ Consumers and companies should have easy access to information and advice if they encounter problems in cross-border situations, for example from European Consumer Centres. Alternative dispute resolution mechanisms should also be available in case of disputes.

# ENSURING ACCESS TO CORPORATE FINANCE

6

The global financial crisis led to a credit crunch and severe downturn in the economy. The crisis also increased demands for stricter financial market regulation and tighter financial supervision in order to fix the shortcomings of the system.

Some level of regulation to increase the stability, reliability and transparency of the financial markets is necessary. However, there is now a real risk of over-regulation which will have a negative impact on the availability of corporate finance.

It is important for Finnish business that the tightening of the regulation does not unreasonably limit the availability of corporate finance or increase the costs of that finance. In other words, it is absolutely critical that access to corporate finance on reasonable terms is not jeopardised.

Effective financial markets are essential for companies to operate, grow and invest.

## THE FINANCIAL SECTOR MUST REMAIN AN ATTRACTIVE EMPLOYER

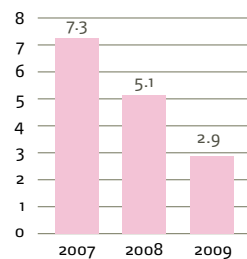
Recent adjustments made in their business models by financial institutions, combined with tighter legislation, are leading to significant structural changes in the financial markets.

When regulating the financial markets it must be ensured that all actors – of whatever size or business model – have equal operational prerequisites, and that the financial industry continues to be able to attract skilled personnel.

The European Commission is also assessing the need to regulate Corporate Governance (CG). However, it should be noted that CG is essentially based on self-regulation, the objective of which is to complement the legal procedures through Corporate Governance recommendations. CG recommendations are designed to make the operational procedures and rules for companies quoted on the securities markets more consistent and transparent.

### Trends in new risk capital in recent years are worrying

Amount of private equity investments in the Nordic countries (€ billion)



Source: EVCA 2010 Nordic Report

## EK'S POLICY RECOMMENDATIONS

### Current issues

- Changes to the capital requirements of credit institutions (Basel III)
- Regulation on short-selling
- Regulation on derivatives markets
- Possible regulation of bank resolution funds
- Higher levels of deposit guarantee schemes
- Broadening of investor compensation fund
- Possible financial market tax
- Crisis management framework for the financial sector
- Review of the Markets in Financial Instruments Directive
- Review of the Market Abuse Directive
- Regulation regarding the Single Euro Payments Area (SEPA)
- Green book on Corporate governance regulation in the financial sector

■ Any new Financial regulation must be based on an impact assessment which takes into account not only the effect on the financial sector but also the effect on access to finance, on the real economy and on the competitiveness of the EU. The cumulative impact of all regulatory proposals affecting the financial markets needs to be assessed.

■ The legislation must leave the EU internationally competitive, and the impact of any changes should be actively monitored. In cases of adverse impact, the regulatory burden must also be rapidly reduced.

■ EK does not support the levying of a separate tax based on financial market activities or transactions on financial market participants.

■ Cross-border crisis management needs be developed so that responsibility can be focused also within the financial sector on the financial institution in difficulty. A controlled cessation of activities and winding up of such an institution must be possible without the realisation of a systemic risk.

■ The financing options for SMEs in particular should be improved. The prerequisites for less regulated market places intended, for example, for start-up companies, need to be promoted through market-driven initiatives.

■ The private equity markets should be developed together with the private sector. Incentives are required especially to help increase the risk capital finance available to growing young and innovative companies.

■ The Single Euro Payments Area (SEPA) based on common principles should be implemented rapidly.

■ State aid by its very nature has disturbing effects on competition. As a main rule, increasing the use of state aid to promote economic growth or structural changes is not the right remedy.

■ The administrative obligations on listed companies must be reduced in order to attract more listings.

■ Corporate governance should be flexible and based on national self-regulation according to the principle of "Comply or Explain". This allows companies to maintain flexibility, and enables taking into account of differences and unique characteristics between individual companies.

# RECOGNISING THE IMPORTANCE OF INNOVATION

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Innovation plays a major role in accelerating economic growth and improving competitiveness. It also helps tackle significant global challenges, such as climate change, the increasing scarcity of energy, water and food, and ageing populations.

This is already widely recognised within the EU. Nevertheless, the next step now needs to be taken to move rapidly from simply promoting innovation to more practical support. The importance of innovation should also be reflected in the EU's financial framework.

## MORE INTERNATIONAL CO-OPERATION

Internationalisation and global co-operation are essential prerequisites for research, development and innovation (RDI) activities. In Finland in general only the RDI activities of large companies are currently truly international.

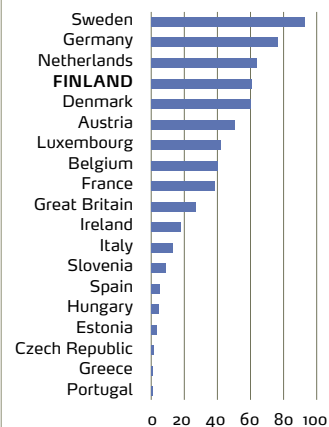
EK encourages Finnish companies to participate in existing European programmes designed to promote innovation co-operation. These programmes, and the EU's other RDI activities and initiatives, should nevertheless be made more business friendly. Currently, their structures are dispersed, fragmented and complex.

The European Innovation Partnership projects of the Innovation Union flagship initiative aim to co-ordinate EU, national and regional research and innovation activities in such a way as to enhance their effectiveness and impact.

Framework Programmes for Research and Technological Development are Europe's most important form of public funding for research and development activities. However, the share of company participation in these framework programmes has declined steadily in recent years. One of the key reasons are the complex and slow administrative processes that are extremely burdensome, especially for SMEs.

### A cost-effective EU patent would liberate resources in Finland for more innovation activities

Number of triadic patent families\* per million population (2007)



\* A triadic patent family refers to a set of patents awarded for the same innovation by the three biggest patent agencies (Europe, USA, Japan).

Source: OECD Patent Database

## EK'S POLICY RECOMMENDATIONS

### Current issues

- EU's multiannual financial framework
- EU's 8th EU Framework Programme for Research and Technological Development and the simplification of the administration of framework programmes
- Competitiveness and Innovation Framework Programme
- Innovation Union and partnerships in Research and Innovation
- Communication on Integrated Industrial Policy
- Framework Directive on European Research Area Framework (ERA )
- Regulation governing translation requirements for the future EU patent and creation of a European patent litigation system
- Communication on Scientific information about increasing transparency
- Communication on the Modernisation of Higher Education

■ In addition to investing in know-how, more attention should be paid to ensuring that the results achieved are also utilised effectively. This should be reflected, for example, in business operations growth, increased productivity and the emergence of new companies.

■ The administration of RDI programmes should be made simpler and more uniform. This would help SMEs in particular to participate in international co-operation. The content of these programmes should reflect the goals of promoting Europe's competitiveness.

■ The demand for innovative products and services could be bolstered by means of innovation-friendly regulations, standardisation and public procurement. These means should be utilised more effectively at the EU level.

■ The EU's innovation policies should be managed more comprehensively. This requires better co-ordination both between the European Commission's main Directorate Generals and between the EU, Member States and regions. A particular challenge is to link EU-level programmes with national and regional programmes. The division of duties should also be clarified.

■ Innovation activities are becoming ever broader, and innovation, along with technology, often require the development of new services or business models. This trend should be noted in EU-level activities.

■ The protection of industrial and intellectual property rights should be of a high quality. Companies of all sizes need to be able to protect their IPRs at a reasonable cost. Piracy, counterfeiting and other IPR infringements should be combated effectively.

■ The European patent system needs to be developed as a whole. EU should create a cost-effective EU patent and a European patent litigation with benefits to current situation.

# INCREASING PRODUCTIVITY AND FLEXIBILITY IN THE LABOUR MARKET

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A well functioning labour market, improvements to productivity and the availability of labour must be highlighted as the most important targets in all decisions concerning the labour market in the EU. The level of European labour legislation is extremely high: working life is already regulated by 70 different Directives.

Experience has shown that additional legislation undermines the operating conditions and competitiveness of companies in global markets, thus endangering employment. Existing regulations should also be reviewed critically in the face of changes in the competitive environment.

Labour market systems differ from each other in the different EU countries. These differences should be acknowledged. The best solutions for increasing productivity and flexibility can be found in the individual sectors, companies and workplaces within Member States. Finland is one of the pioneers in introducing flexible working time arrangements.

## AGEING POPULATIONS ARE A CHALLENGE FOR EU COUNTRIES

The ageing of the working population threatens the availability of a skilled workforce and is testing the sustainability of public economies throughout Europe. Approximately 40 % of Finland's current workforce is due to retire within the next 15 years. Smaller age groups are entering the workforce, as a result of which the working population (15 to 64 years of age) will diminish by 4.5%. At the same time the dependency ratio will weaken dramatically. There are currently just over 50 children and senior citizens for every 100 people of working age in Finland; in 15 years this figure will have risen to around 70.

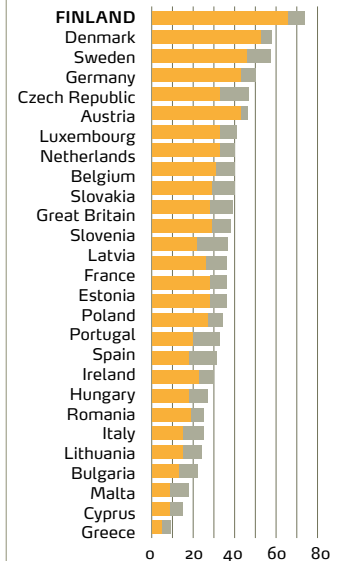
Each EU country must find sustainable national solutions to meet the challenges posed by their ageing populations. The EU's role is to support these national actions.

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### Finland is at the top in introducing flexible working time

Flexible working time arrangements by country and flexibility scope in Europe in 2009

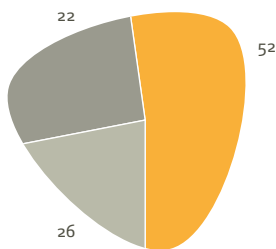
% of workplaces



- Possibility to use accumulated hours including for full days off
- Possibility to accumulate work hours, but not for taking full days off

Source: Second European Company Survey 2009 (Eurofound)

**Vocational education plays an important role in working life – this should be reflected in the EU's focus areas.**



Educational qualifications of persons recruited by EK member companies (2009, %)

- Vocational education
- University
- Polytechnic

Source: EK personnel and education survey (2009)

## FLEXICURITY AS THE BASIS FOR REFORMS

The economic crisis demonstrated that there are major problems in the labour market in many EU countries. Reforms were initiated only when forced by the crisis. The functioning of the labour market needs to be monitored continuously at the Member State level. When required by changes in the operating environment, the labour market should be reformed on the basis of the principle of flexicurity.

Employers need to be sufficiently flexible to adapt and adjust rapidly to anticipated and actual changes in demand and the markets. They need to be able to use and allocate labour resources in line with an appropriate manner.

The expertise and professional skills of employees must correspond to the needs of the labour market. A well functional labour market requires a sufficiently skilled workforce. This challenge should be met in part by eradicating barriers to work-related immigration.

## EK'S POLICY RECOMMENDATIONS

■ The social dialogue between European social partners must be continued and improved. Labour market parties and their member organisations are most knowledgeable about the strengths, weaknesses and development needs of their national systems. They also know best the working conditions in the workplace.

■ European working life should be developed according to the principle of flexicurity. A functional balance needs to be struck at national level using labour legislation between the security of employees and the flexibility required by employers.

■ Changes in working life and future skills requirements should be anticipated in order to manage structural changes in the labour market and to ensure the availability of a skilled workforce. EU-level co-operation can help to source new ideas and models for developing national education systems. Decisions about educational policies should nevertheless always be made at the national level.

■ A mobile workforce improves the EU's competitiveness. The EU has an important role in developing legal immigration and facilitating the entrance requirements for specific professions. However, the end result of the harmonisation of work-related immigration must not be the creation of inflexible EU-level regulations that complicate national systems. In addition, immigration regulations should not impact other national norms, such as social security and labour laws.

■ The EU should improve the comparability of different pension systems and press for measures that ensure the sustainability of pension contributions and recognise the requirement to extend the average working life. Reforming these systems is nevertheless a national issue and must be made on the basis of the situation within each Member State.

■ The EU plays an important role in gathering current information about the labour market and spreading national best practices.

### Current issues

- Directive on improving the health and safety of pregnant workers and workers who have recently given birth or are breastfeeding
- Working Time Directive
- Improved implementation of the Posted Workers Directive
- Directives on Third-Country Seasonal Workers and Intra Corporate Transferees
- Directive regarding the exposure of workers to the risks arising from electromagnetic fields
- Green and White Paper on Pensions
- Youth on the Move and New Skills and Jobs Communications

# 9

## GAINING ACCESS TO WIDER INTERNATIONAL MARKETS

Finnish growth and well-being is dependent on trade and the competitiveness and continuing success of Finnish companies in external markets.

Our competitiveness is best supported by promoting open markets internally and externally and working towards a level playing field globally. Currently multiple trade barriers and restrictive policies and regulatory divergences are undermining the competitive position of European companies. This is particularly detrimental to the international operations of small businesses.

The European Single Market offers companies a springboard to growth opportunities in international markets. For Finnish SMEs the neighbouring markets in Russia, the Baltics and Sweden are important. The geographical proximity and potential of the enormous Russian market is also a considerable advantage.

### OPPOSE PROTECTIONISM

Uniform EU trade policy focused on open markets, international rules and level playing field will best support economic growth and competitiveness, environmental goals and social development in both the EU and developing nations.

The EU should have strong economic orientation in external relations and focus on outward-looking, open policy approach that fully supports the internationalisation, growth and competitiveness of companies and enables their integration into global supply chains of goods and services.

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### Regulatory environment and border measures of both the EU and its trading partner hamper international business



## EK'S POLICY RECOMMENDATIONS

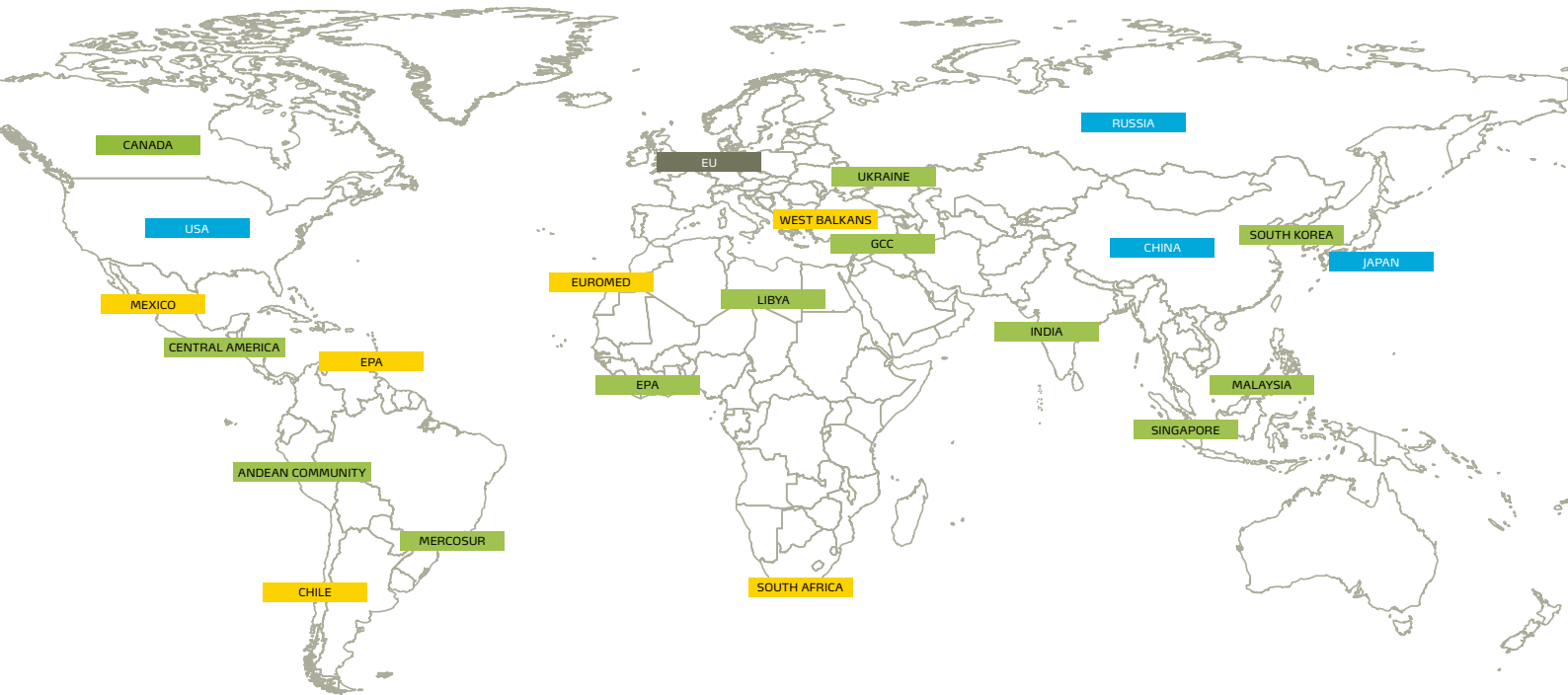
- The EU needs to continue to fight against protectionism and act systematically to remove barriers to trade and investment and to promote trade facilitation.
- The WTO Doha round trade negotiations and on-going EU free trade negotiations with third countries should be concluded to deliver new ambitious market access results. New initiatives are also needed to develop the rules-based trade system over the long term relationship.
- The EU should strengthen its economic relationship based on commitment to open markets, constructive dialogue, mutual benefit and trust with the strategic partner countries, especially Russia, China, the USA, India, Brazil and Japan.
- The EU should promote Russia's WTO membership, which would enable the conclusion of the new EU-Russia agreement negotiations and the launch of the free trade agreement negotiations. Progress in these initiatives and steps towards a visa-free regime would facilitate trade and investment and support the modernisation of the Russian economy.
- The EU should promote the liberalisation of trade in environmental technology and services, as well as ICT and related technologies to open up new business opportunities.
- The EU should enhance market access to third country public procurement markets by addressing restrictions created by third countries. The EU should strive to get third countries to commit to open markets by means of FTA and GPA agreements. The EU should also ensure the protection of industrial and intellectual property rights in external markets.
- To safeguard the operating conditions of companies, the EU should continue its activities to ensure the stable and market-priced supply of raw materials and other production inputs, as well as facilitating imports.
- The EU should support a stable and open investment environment for companies by negotiating ambitious investment agreements which include both market access and the protection of investments. The legal certainty of European investments must be safeguarded in key markets in order to facilitate business operations.

### Current issues

- New Trade Policy for Europe
- WTO Doha round
- EU's plurilateral trade agreements
- EU's bilateral free trade agreements
- Transitional arrangements for bilateral investment agreements between Member States and third countries and Future European international investment policy
- Continuation and reform of the Generalised System of Preferences (GSP)
- Green Paper on the development of the EU's export control system
- Raw Material Initiative
- Legislative proposal for a new instrument to help promote market entry to public procurement markets in third countries.
- Communication on support measures to help the internationalisation of SMEs
- Annual trade and investment barriers reports

## EU trade policy promoting access to emerging markets

- Strategic partners
- Free trade agreements in force
- On-going free trade negotiations



# GROWTH FROM NATURAL RESOURCES AND ENVIRONMENTAL EXPERTISE

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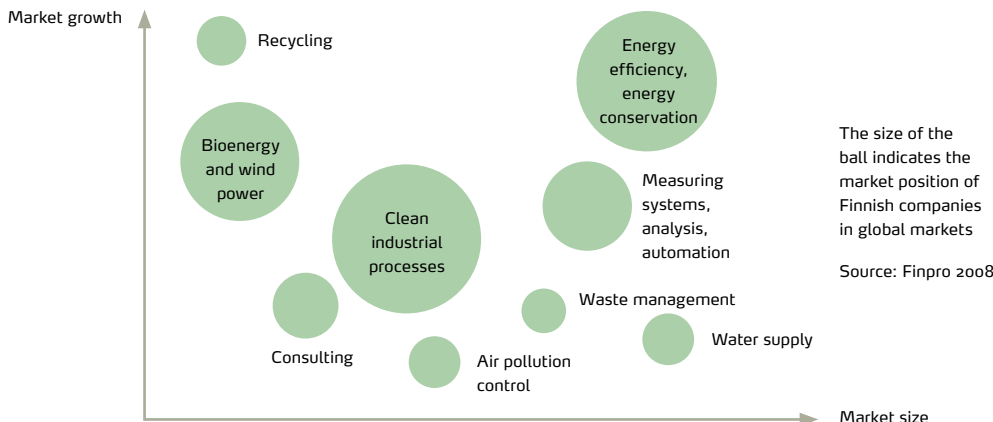
The strength of the Finnish economy has traditionally been in its natural resources: forests, water and mining. The refining of natural resources has resulted in strong technological and environmental expertise, for which there is a growing global demand.

On the other hand, due to the remote location and structure of the Finnish economy, the need for energy and transportation is higher than the average in Finland. Finland is also completely dependent on maritime transport. Therefore, increases in the cost of energy and transportation resulting from climate change and environmental policies considerably weakens the relative competitiveness of Finnish companies.

In order to support sustainable growth and employment, the EU's energy, transportation, climate change and environmental policies must ensure favourable operating conditions for companies – energy-intensive industries included – in relation to external competitors. Otherwise, companies will find it difficult to develop “green” business solutions and succeed in global markets.

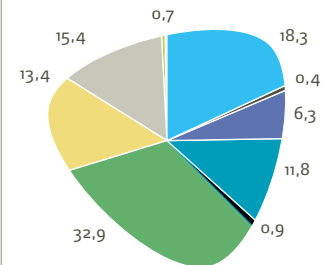
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## Finland has a wide range of expertise in the growing cleantech markets



## Almost two-thirds of Finland's electricity production is carbon neutral

Electricity production by energy source (2009), TWh



Renewable 31 %  
Carbon neutral 63 %

- Hydro
- Wind
- Peat
- Biomass
- Waste
- Nuclear
- Natural gas
- Coal
- Oil

Source: Finnish Energy Industries

When the basic business conditions are in place, companies can better allocate their resources to develop and apply eco-efficient solutions.

#### ALL SECTORS CAN BE GREEN

When promoting green business, the full potential of all branches of industry should be included. Classifying individual sectors of industry according to how 'green' they are is neither possible nor constructive. Instead of increasing regulation, the EU should focus more closely on RDI activities aimed at promoting environmentally friendly solutions.

Instead of EU-level obligations and instruments, international agreements and rules are needed. This would provide companies with equal operating conditions and help create international markets for green technologies, products and know-how.

#### The availability of reasonably priced electricity is one of the most important prerequisites for energy intensive industry

	FINLAND 2007, %	EU-27 2007, %
Industry's share of GDP	26.2	20.2
Goods exports as a share of GDP	36.6	30.3
Energy intensive industry as a share of goods exports	44.0	36.0
Industry's share of electricity usage (The majority of this is used in the manufacture of exported products)	53.0	40.0

Source: The Federation of Finnish Technology Industries

The Finnish economy and exports are clearly more energy-intensive than the EU average. The availability of reasonably priced energy is therefore important for Finland. For some industrial products, electricity can take up the largest share of production costs. For example, for chlorite, the share is over 60 %, for zinc over 40 % and for ferrochrome over 30 % of all production costs.

## EK'S POLICY RECOMMENDATIONS

### Energy, raw materials, logistics – competitiveness through cost efficiency

- The EU's energy policies are aimed at promoting a low carbon economy and safeguarding energy supply. More weight should also be given to energy costs. The competitive price of energy should once again become a top priority for the EU energy policy.
- All carbon-neutral forms of energy production are needed. As society becomes more dependent on electricity, total energy consumption and emissions can be reduced. For this reason favourable investment conditions are needed for electricity production, including nuclear power.
- When promoting energy efficiency, mandatory systems and heavy administration should be avoided. In Finland positive experiences have been gained over the years from voluntary agreements as a cost-effective means to improve energy efficiency.
- The EU should safeguard the competitive availability of raw materials from international markets through its trade policy. Favourable conditions for utilising our own natural resources are also needed within the EU, by improving permit procedures for example.
- The EU should promote the use of natural resources in a way that creates the most added value. For Finland, it is especially important that the use of wood as an industrial raw material is safeguarded.
- The REACH regulation, which controls the manufacture and imports of chemicals, should be improved to ensure that over-reaching chemical restrictions do not weaken the EU's competitiveness or the development and adoption of innovations.
- Material efficiency is best enhanced through companies' own initiatives. Quantitative targets for material efficiency or the use of materials should not be set.
- The reuse of waste should be promoted by improving the possibilities of using recycled raw materials, for example by clarifying the boundary line between a waste fraction and a waste product for example.
- Transportation bottlenecks should be eliminated. Efficient logistics are cost efficient and also beneficial both in terms of climate and environmental impacts and traffic safety.
- The choice between different modes of transportation should be market-based. All modes of transport have their own role to play, and often there are no alternatives available.

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### Current issues

- Energy Roadmap 2050
- Energy Efficiency Action Plan
- Reform of the Energy Tax Directive
- Communication on Integrated Industrial Policy
- Communication on tackling the challenges in commodity markets and on raw materials
- Roadmap for a resource-efficient Europe
- Strategy on waste
- White Paper on the future of transport
- Reform of the Road Charge Directive

## EK'S POLICY RECOMMENDATIONS

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### Current issues

- Low-carbon economy 2050 roadmap
- Strategy for EU international climate policy
- Eco-Innovation Action Plan
- Review of the Sulphur Directive

### Internationally comparable climate change and environmental commitments

- The EU should not unilaterally increase its emissions reduction target from 20%.
- It is important that all major emitting countries, including the emerging economies, commit to comparable and equal emission reductions as soon as possible.
- The EU should focus more on the development of eco-innovations and on technology co-operation with key partners. When promoting technology exports, intellectual property rights must however be protected.
- Emissions trading plays a key role in the EU's climate policy. Emissions trading should, however, be global in order to maximise its steering effects and minimise its cost disadvantages. As long as competing countries lack comparable emission reduction commitments, the EU must safeguard its competitiveness by distributing free emissions allowances as much as possible, especially for industries under the threat of carbon leakage.
- Climate policies for aviation and maritime transport should be internationally comparable. Other environmental regulations, such as sulphur and nitrogen emission requirements, should also ensure equal operating conditions both within the EU and in relation to external competitors (cf. IMO decisions).
- Overlapping targets and policy instruments should be avoided in climate change and environmental policy, such as emissions trading and energy taxes or emissions trading and environmental permits. In addition, targets and policy instruments should not discriminate against companies or countries because of their location and the long distances involved.
- Climate change and environmental policies create major cost pressures on companies and therefore the impacts of different decisions should be carefully assessed and the cumulative costs of different regulations should be taken into consideration. All EU countries must implement EU regulations, and adherence to these regulations should also be monitored.



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